

AKRON CITY CONVALESCENT CARE CENTER

Akron, Iowa

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2004 AND 2003

AKRON CITY CONVALESCENT CARE CENTER

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AKRON CITY CONVALESCENT CARE CENTER

CITY OF AKRON, IOWA

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Akron City Convalescent Care Center

We have audited the accompanying statements of net assets of Akron City Convalescent Care Center, a component unit of the City of Akron, Iowa, as of June 30, 2004 and 2003 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of Akron City Convalescent Care Center. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Akron City Convalescent Care Center as of June 30, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As described in the notes to the financial statements, during the year ended June 30, 2004, Akron City Convalescent Care Center adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2004 on our consideration of Akron City Convalescent Care Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 4 through 8 and 19 are not required parts of the basic financials, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audits were performed for the purpose of forming opinions on the financial statements taken as a whole. Other supplementary information included in this report (shown on pages 21 through 28) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

King, Reinsch, Prosser & Co., L.L.P.

Sioux City, Iowa
August 5, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Akron City Convalescent Care Center provides this Management's Discussion and Analysis of Akron City Convalescent Care Center's annual financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the Care Center's financial statements, which follow.

2004 Financial Highlights

- The Care Center's operating loss decreased by 26.0 percent, or approximately \$24,636, from fiscal 2003 to fiscal 2004.
- Net patient service revenues increased 3.0 percent, or approximately \$51,309, from fiscal 2003 to fiscal 2004.
- Operating expenses increased 0.9 percent or approximately \$16,101, from fiscal 2003 to fiscal 2004.
- Donations decreased 29.2 percent, or approximately \$9,383, from fiscal 2003 to fiscal 2004.
- The Care Center's net assets decreased 15.7 percent, or approximately \$69,991, from June 30, 2003 to June 30, 2004.

Using This Annual Report

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Care Center's financial activities.

The basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows. These statements provide information about the activities of the Care Center, on a comparative basis, including resources held by the Care Center but restricted for specific purposes by creditors, contributors, grantors or enabling legislation.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Care Center's budget for the year.

Other Supplementary Information provides detailed information about the operations of the Care Center.

Reporting the Care Center's Financial Activities

The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about the Care Center's finances is "Is the Care Center as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Care Center's resources and its activities in a way that helps answer this question. These statements include all assets (restricted and unrestricted) and all liabilities using the accrual basis of accounting which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Care Center's net assets, which is the difference between assets and liabilities, as one way to measure the Care Center's financial health or financial position. Over time, increases or decreases in the Care Center's net assets are one indicator of whether its financial position is improving or deteriorating. Additional factors, such as changes in the Care Center's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic conditions, are also important in making this determination.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

Financial Analysis of the Care Center

As noted earlier, net assets may serve over time as a useful indicator of financial position. The Care Center's net assets decreased by \$69,991 (15.7 percent) from fiscal 2003 to fiscal 2004.

Assets, Liabilities and Net Assets June 30,

	<u>2004</u>	<u>2003</u>
Current assets	\$ 85,590	\$ 82,612
Restricted assets	14,811	75,490
Capital assets	<u>1,042,704</u>	<u>514,798</u>
Total assets	<u>\$ 1,143,105</u>	<u>\$ 672,900</u>
Current liabilities	\$ 217,551	\$ 225,956
Long-term debt	<u>548,601</u>	<u>-</u>
Total liabilities	<u>\$ 766,152</u>	<u>\$ 225,956</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 439,865	\$ 495,798
Unrestricted (deficit)	<u>(62,912)</u>	<u>(48,854)</u>
Total net assets	<u>\$ 376,953</u>	<u>\$ 446,944</u>

The Care Center had no restricted net assets at June 30, 2004 and 2003.

The following shows the changes in net assets for the Care Center.

<u>Revenues, Expenses and Changes in Net Assets</u>		
<u>Year Ended June 30,</u>		
	<u>2004</u>	<u>2003</u>
Operating revenues:		
Net patient service revenue	\$ 1,726,441	\$ 1,675,132
Other operating revenues	<u>25,942</u>	<u>25,966</u>
Total operating revenues	<u>\$ 1,752,383</u>	<u>\$ 1,701,098</u>
Operating expenses:		
Nursing services	\$ 826,024	\$ 809,454
Other professional services	105,093	112,543
General services	407,494	433,205
Administrative and general	392,741	404,457
Depreciation	31,716	32,469
Village South apartment complex	39,220	38,109
Village North apartment complex	<u>44,050</u>	<u>-</u>
Total operating expenses	<u>\$ 1,846,338</u>	<u>\$ 1,830,237</u>
Operating loss	<u>\$ (93,955)</u>	<u>\$ (129,139)</u>
Non-operating revenues:		
Donations	\$ 22,793	\$ 32,176
Interest income	<u>1,171</u>	<u>2,336</u>
Total non-operating revenues	<u>\$ 23,964</u>	<u>\$ 34,512</u>
Change in net assets	<u>\$ (69,991)</u>	<u>\$ (94,627)</u>

Operating Losses

The first component of the overall change in the Care Center's net assets is its operating loss, which is the difference between the sum of the net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past two years, the Care Center has reported an operating loss. This is consistent with the Care Center's recent operating history as the Care Center was formed and is operated primarily to serve residents of Plymouth County and the surrounding area.

The operating loss for fiscal 2004 decreased by \$24,636, or 26.0 percent, compared to fiscal 2003. The primary components of the decreased operating loss are:

- An increase in other operating revenues of \$51,285, or 3.0 percent.
- An increase in operating expenses of \$16,101, or 0.9 percent.

Non-operating revenues consist primarily of donations and interest income. Donations decreased \$9,383, or 29.2 percent from fiscal 2003 to fiscal 2004. Interest income decreased \$1,165, or 49.9 percent.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2004, the Care Center had \$1,042,704 invested in capital assets, net of accumulated depreciation, as detailed in Note F to the financial statements. In fiscal 2004, the Care Center completed the Village North apartment complex costing \$677,495, financed by a note payable to the bank.

Long-Term Debt

At June 30, 2004, the Care Center had a note payable to the bank totaling \$602,839, as detailed in Note G to the financial statements.

Economic Factors

Akron Convalescent Care Center did improve its operations during the current fiscal year. However, the current condition of the economy in the state continues to be a concern for the Care Center officials. Some of the realities that may potentially become challenges for the Care Center to meet are:

- High percentage of occupancy rates.
- Drug costs will continue to increase.
- Facilities at the Care Center require constant maintenance and upkeep.
- Shortages in finding qualified employees.
- Potential changes in reimbursement rates.

The Care Center anticipates the current fiscal year will improve compared to fiscal 2004, but may not be much better than break-even.

Contacting the Care Center's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Care Center's finances and to show the Care Center's accountability for the money it receives. If you have questions about this report and or need additional financial information, contact Akron Convalescent Care Center, P.O. Box 830, Akron, Iowa.

AKRON CITY CONVALESCENT CARE CENTER

STATEMENTS OF NET ASSETS

JUNE 30, 2004 AND 2003

ASSETS

	<u>2004</u>	<u>2003</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 9,586	\$ 8,872
Accounts receivable (less allowance for doubtful accounts of \$2,000 in 2004 and 2003)	60,999	57,371
Supplies inventory	2,371	2,892
Prepaid expenses	<u>12,634</u>	<u>13,477</u>
Total current assets	<u>\$ 85,590</u>	<u>\$ 82,612</u>
NONCURRENT ASSETS:		
Restricted cash, including \$153 of accrued interest for 2003	<u>\$ 14,811</u>	<u>\$ 75,490</u>
Capital assets	\$ 2,045,205	\$ 1,468,174
Less accumulated depreciation	<u>1,002,501</u>	<u>953,376</u>
Net capital assets	<u>\$ 1,042,704</u>	<u>\$ 514,798</u>
Total noncurrent assets	<u>\$ 1,057,515</u>	<u>\$ 590,288</u>
Total assets	<u>\$ 1,143,105</u>	<u>\$ 672,900</u>

LIABILITIES AND NET ASSETS

LIABILITIES:		
Current liabilities:		
Excess of outstanding checks over bank balance	\$ 11,302	\$ -
Accounts payable	25,254	82,070
Accrued salaries and wages	33,430	28,155
Payroll taxes withheld and accrued	10,337	13,477
Accrued compensation	82,990	83,254
Current maturities of long-term debt	<u>54,238</u>	<u>19,000</u>
Total current liabilities	<u>\$ 217,551</u>	<u>\$ 225,956</u>
Long-term debt, excluding current maturities	<u>\$ 548,601</u>	<u>\$ -</u>
Total liabilities	<u>\$ 766,152</u>	<u>\$ 225,956</u>
NET ASSETS:		
Invested in capital assets, net of related debt	\$ 439,865	\$ 495,798
Unrestricted (deficit)	<u>(62,912)</u>	<u>(48,854)</u>
Total net assets	<u>\$ 376,953</u>	<u>\$ 446,944</u>

See accompanying notes to the financial statements.

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AKRON CITY CONVALESCENT CARE CENTER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
OPERATING REVENUES:		
Net revenue from services to patients and residents	\$ 1,726,441	\$ 1,675,132
Other operating revenues	<u>25,942</u>	<u>25,966</u>
Total operating revenues	<u>\$ 1,752,383</u>	<u>\$ 1,701,098</u>
OPERATING EXPENSES:		
Administrative and general	\$ 392,741	\$ 404,457
Plant operations and maintenance	61,511	74,444
Dietary	246,407	245,859
Laundry	43,053	47,857
Housekeeping	56,523	65,045
Nursing services:		
Salaries	782,322	745,602
Supplies and other	39,308	55,178
Drugs and medical supplies	4,394	8,674
Activities	55,780	60,000
Social services	24,211	19,753
Physical therapy	21,502	29,041
Other services	3,600	3,749
Depreciation	31,716	32,469
Village South apartment complex (including depreciation)	39,220	38,109
Village North apartment complex (including depreciation)	<u>44,050</u>	<u>-</u>
Total operating expenses	<u>\$ 1,846,338</u>	<u>\$ 1,830,237</u>
OPERATING LOSS	<u>\$ (93,955)</u>	<u>\$ (129,139)</u>
NON-OPERATING REVENUES:		
Donations	\$ 22,793	\$ 32,176
Interest income	<u>1,171</u>	<u>2,336</u>
Total non-operating revenues	<u>\$ 23,964</u>	<u>\$ 34,512</u>
CHANGES IN NET ASSETS	\$ (69,991)	\$ (94,627)
NET ASSETS BEGINNING OF YEAR	<u>446,944</u>	<u>541,571</u>
NET ASSETS END OF YEAR	<u><u>\$ 376,953</u></u>	<u><u>\$ 446,944</u></u>

AKRON CITY CONVALESCENT CARE CENTER

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patient and resident services	\$ 1,722,813	\$ 1,698,016
Other operating revenues	25,942	25,966
Cash paid to suppliers for goods and services	(409,707)	(478,748)
Cash paid to employees for services	(1,360,726)	(1,305,052)
Interest paid on bank note payable	(15,144)	-
Net cash used for operating activities	<u>\$ (36,822)</u>	<u>\$ (59,818)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Donation of fixed assets	\$ -	\$ (3,075)
Donations received	22,793	32,176
Net cash provided by non-capital financing activities	<u>\$ 22,793</u>	<u>\$ 29,101</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	\$ (642,248)	\$ (67,173)
Proceeds from bank note payable	606,000	19,000
Principal paid on bank note payable	(22,161)	-
Net cash used for capital and related financing activities	<u>\$ (58,409)</u>	<u>\$ (48,173)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	\$ 1,324	\$ 2,336
NET DECREASE IN CASH	\$ (71,114)	\$ (76,554)
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	<u>84,209</u>	<u>160,763</u>
CASH AND CASH EQUIVALENTS END OF YEAR	<u><u>\$ 13,095</u></u>	<u><u>\$ 84,209</u></u>
Reconciliation of cash and cash equivalents to the statement of net assets:		
Cash and cash equivalents	\$ 9,586	\$ 8,872
Restricted cash	14,811	75,337
Excess of outstanding checks over bank balance	(11,302)	-
Total cash and cash equivalents	<u>\$ 13,095</u>	<u>\$ 84,209</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	<u>\$ (93,955)</u>	<u>\$ (129,139)</u>
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	\$ 49,125	\$ 39,124
Changes in assets and liabilities:		
Accounts receivable	(3,628)	22,884
Supplies inventory	521	(1,367)
Prepaid expenses	843	(2,664)
Accounts payable	8,401	(3,953)
Accrued salaries and wages	5,275	2,609
Payroll taxes withheld and accrued	(3,140)	1,937
Accrued compensation	(264)	10,751
Total adjustments	<u>\$ 57,133</u>	<u>\$ 69,321</u>
Net cash used for operating activities	<u><u>\$ (36,822)</u></u>	<u><u>\$ (59,818)</u></u>

See accompanying notes to the financial statements.

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AKRON CITY CONVALESCENT CARE CENTER

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2004 AND 2003

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Akron City Convalescent Care Center is a component unit of the City of Akron, Iowa established to provide and maintain health care facilities, and to promote the general health of the community. The Care Center is governed by a Board of Trustees in accordance with Chapter 392 of the Code of Iowa and Akron City Ordinance. Prior to July 1, 1986, the Care Center operated as Akron City Hospital.

The Care Center is licensed as a nursing facility with a bed capacity of fifty two beds. Substantially all of the Care Center's patients and residents are local residents and a majority of them are entitled to benefits under the Medicaid/Title XIX program. The Care Center also operates two assisted living apartment complexes separate from the licensed facility.

The Care Center's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

- A. Basis of Presentation - During the year June 30, 2004, the Care Center implemented the following new accounting standards issued by the Governmental Accounting Standards Board (GASB): Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures*.

GASB Statement No. 34, as amended by GASB Statement No. 37, establishes new financial reporting standards for state and local governments, which include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows. GASB Statement No. 38 requires certain note disclosures when GASB Statement No. 34 is implemented.

The Statement of Net Assets displays the Care Center's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt - consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt attributable to the acquisition, construction or improvement of those assets.

AKRON CITY CONVALESCENT CARE CENTER

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2004 AND 2003

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

Restricted net assets - result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets - consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Care Center's policy to use restricted resources first.

The financial statements as of and for the year ended June 30, 2003 have been reclassified to conform to the current year's presentation.

- B. Measurement focus and Basis of Accounting - Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred

In reporting its financial activity, the Care Center applies all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

- C. Use of Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

AKRON CITY CONVALESCENT CARE CENTER

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2004 AND 2003

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

- D. Assets, Liabilities and Net Assets - The following accounting policies are followed in preparing the statement of net assets:

Cash and Cash Equivalents - For purposes of reporting cash flows, cash and cash equivalents consist of all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased.

Accounts Receivable - Accounts receivable are shown at the amount expected to be collected after determining the allowance for doubtful accounts based on an aging of all the individual patient balances.

Supplies Inventory - Supplies inventory is valued at cost (first-in, first-out) or market, whichever is lower.

Restricted Assets - Restricted assets consist primarily of funds designated by the Board of Trustees for the improvement, replacement and expansion of capital assets. The Board retains control over these funds and may, at its discretion, subsequently use them for other purposes.

Capital Assets - Capital assets are carried at cost. Depreciation is computed over the estimated useful lives of the assets by the straight-line method. The useful lives of the buildings and improvements (including the Assisted Living Apartment Complexes) range from ten to fifty years. The useful lives of equipment range from three to twenty-five years.

- E. Statement of Revenues, Expenses and Changes in Net Assets - For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as non-operating revenues and expenses.
- F. Net Patient Service Revenue- Patient service revenue is reported at the estimated net realizable amounts from residents, third-party payors, and others for service rendered.

Revenue from services provided to Medicaid (Title XIX) nursing care patients under an agreement with the Iowa Department of Human Services is recorded at reimbursement rates determined by the Department. These rates are below the Care Center's established rates.

AKRON CITY CONVALESCENT CARE CENTER

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2004 AND 2003

NOTE B - CASH AND INVESTMENTS:

The Care Center's deposits at June 30, 2004 were entirely covered by Federal depository insurance, or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City of Akron has adopted an investment policy in accordance with state law. Eligible investments include interest-bearing accounts or certificates of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa and obligations of the United States Government, its agencies and instrumentalities.

NOTE C - ACCOUNTS RECEIVABLE:

Accounts receivable at June 30, 2004 and 2003 consist of the following:

	<u>2004</u>	<u>2003</u>
Medicaid/Title XIX:		
Part B	\$ -	\$ 752
Nursing Care	57,383	47,952
Other Payors	5,359	5,713
Patients/Residents	<u>257</u>	<u>4,954</u>
	\$ 62,999	\$ 59,371
Less: Allowance for doubtful accounts	<u>2,000</u>	<u>2,000</u>
	<u>\$ 60,999</u>	<u>\$ 57,371</u>

NOTE D - CONTRACT COSTS RECEIVABLE/PAYABLE:

The Care Center has entered into reimbursement agreements for nursing services rendered to Veterans Administration and Medicaid patients. The Care Center enters into contracts with the Veterans Administration to provide reimbursement at stated per diem rates on a patient by patient basis. The Medicaid program has adopted a prospective per diem reimbursement method which represents full payment on submitted claims.

NOTE E - RESTRICTED CASH:

During the year ended June 30, 1998 the Center paid off its revenue notes. All of the reserve funds were then transferred to a Capital Reserve Account, based on a resolution of the Board of Trustees.

AKRON CITY CONVALESCENT CARE CENTER

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2004 AND 2003

NOTE E - RESTRICTED CASH (CONTINUED):

The Care Center's Board restricted assets have been invested by the City of Akron at June 30, 2004 and 2003 as follows:

	<u>2004</u>	<u>2003</u>
Capital reserve fund:		
Investment (savings) account	\$ 14,811	\$ 15,158
Certificate of deposit (dated April 22, 2003, due March 22, 2004 at 2.573 percent)	-	32,368
	<u>\$ 14,811</u>	<u>\$ 47,526</u>
Assisted living fund:		
Certificates of deposit	\$ -	\$ 27,811
Accrued interest	-	153
	<u>\$ -</u>	<u>\$ 27,964</u>
Total	<u>\$ 14,811</u>	<u>\$ 75,490</u>

During the year ended June 30, 2004, \$28,258 was expended from the assisted living fund. \$18,661 was used for expenses incurred in connection with the assisted living project and \$9,597 was used for operating expenses.

NOTE F - CAPITAL ASSETS:

Capital assets activity for the year ended at June 30, 2004 was as follows:

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Reclass</u>	<u>Balance End of of Year</u>
Capital assets not being depreciated:				
Land	\$ 23,004	\$ -	\$ -	\$ 23,004
Construction in progress	110,622	566,873	(677,495)	-
Total capital assets not being depreciated	<u>\$ 133,626</u>	<u>\$ 566,873</u>	<u>\$ (677,495)</u>	<u>\$ 23,004</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 1,118,009	\$ -	\$ 677,495	\$ 1,795,504
Equipment and furnishings	216,539	10,158	-	226,697
Total capital assets being depreciated	<u>\$ 1,334,548</u>	<u>\$ 10,158</u>	<u>\$ 677,495</u>	<u>\$ 2,022,201</u>
Less allowance for depreciation:				
Buildings and improvements	\$ 779,595	\$ 35,231	\$ -	\$ 814,826
Equipment and furnishings	173,781	13,894	-	187,675
Total accumulated depreciation	<u>\$ 953,376</u>	<u>\$ 49,125</u>	<u>\$ -</u>	<u>\$ 1,002,501</u>
Total capital assets being depreciated, net	<u>\$ 381,172</u>	<u>\$ (38,967)</u>	<u>\$ 677,495</u>	<u>\$ 1,019,700</u>
Total capital assets, net	<u>\$ 514,798</u>	<u>\$ 527,906</u>	<u>\$ -</u>	<u>\$ 1,042,704</u>

AKRON CITY CONVALESCENT CARE CENTER

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2004 AND 2003

NOTE G - LONG-TERM DEBT:

Long-term debt consists of a note payable to the bank with an original principal of \$625,000. The note financed the construction of the Village North Apartment Complex, an 8-unit assisted living facility completed in December 2003. The note is payable in 120 equal monthly installments of \$6,122, including interest at 3.3 percent. The note shall be payable solely and only out of the net revenue of the Care Center and shall be a first lien on the future net revenues of the Care Center. The future maturities are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2005	\$ 54,238
2006	56,055
2007	57,933
2008	59,874
2009	61,880
Remaining	312,859
Total	\$ 602,839
Less: Current maturities	54,238
Balance due, net	<u>\$ 548,601</u>

NOTE H - INTEREST COST:

The Care Center's policy is to capitalize interest cost on construction in progress to the extent such construction is capitalized in the Statement of Net Assets. For the year ended June 30, 2004, the Care Center capitalized \$6,695 of interest cost and incurred total interest cost of \$15,144 in connection with assisted living project.

NOTE I - OPERATING LEASES:

The Care Center leases various equipment under operating leases. Rental expense under these leases was \$2,113 and \$2,151 for the years ended June 30, 2004 and 2003, respectively.

NOTE J - RELATED PARTY TRANSACTIONS:

The Care Center purchases its electricity, water, sewer and garbage services from the City of Akron's municipal utility. The total amounts purchased for the years ended June 30, 2004 and 2003 were \$22,282 and \$20,292, respectively.

AKRON CITY CONVALESCENT CARE CENTER

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2004 AND 2003

NOTE K - PENSION AND RETIREMENT BENEFITS:

The Care Center contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70 percent of their annual salary and the Care Center is required to contribute 5.75 percent of annual covered payroll. Contribution requirements are established by State statute. The Care Center's contribution to IPERS for the years ended June 30, 2004 and 2003 were \$62,183 and \$61,192, respectively, equal to the required contributions for each year.

NOTE L - RISK MANAGEMENT:

The Care Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Care Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

The Care Center's workers compensation insurance coverage is purchased from an association of Iowa long-term care providers. The program includes a minimum contribution to cover projected claims and administration costs as well as a potential maximum contribution level. If a member's actual claims for any policy year exceed the claim fund amount included in the minimum contribution, after adjustment for actual payrolls, the member is required to contribute the excess, up to the stated maximum contribution.

Losses for claims in excess of the minimum contributions to the claim fund are accrued when information provided by the Association indicates an assessment is probable and can be reasonably estimated. At June 30, 2004, there were no claims in excess of the minimum contributions to the claim fund.

REQUIRED SUPPLEMENTARY INFORMATION

AKRON CITY CONVALESCENT CARE CENTER

BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES

AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL (ACCRUAL BASIS)

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2004

	Actual Accrual Basis	Budgeted Amounts Original/ Amended*	Final to Actual Accrual Basis Variance
OPERATING REVENUES:			
Net revenue from services to patients and residents	\$ 1,726,441	\$ 1,754,000	\$ (27,559)
Other operating revenues	<u>25,942</u>	<u>24,400</u>	<u>1,542</u>
Total operating revenues	<u>\$ 1,752,383</u>	<u>\$ 1,778,400</u>	<u>\$ (26,017)</u>
OPERATING EXPENSES:			
Administrative and general	\$ 392,741	\$ 368,625	\$ (24,116)
Plant operations and maintenance	61,511	68,000	6,489
Dietary	246,407	247,500	1,093
Laundry	43,053	48,500	5,447
Housekeeping	56,523	65,000	8,477
Nursing services:			
Salaries	782,322	755,000	(27,322)
Supplies and other	39,308	49,725	10,417
Drugs and medical supplies	4,394	8,000	3,606
Activities	55,780	58,500	2,720
Social services	24,211	20,250	(3,961)
Physical therapy	21,502	21,600	98
Other services	3,600	3,850	250
Depreciation	31,716	31,100	(616)
Village North and South Apartment Complex (including depreciation)	<u>83,270</u>	<u>39,350</u>	<u>(43,920)</u>
Total operating expenses	<u>\$ 1,846,338</u>	<u>\$ 1,785,000</u>	<u>\$ (61,338)</u>
OPERATING LOSS	<u>\$ (93,955)</u>	<u>\$ (6,600)</u>	<u>\$ (87,355)</u>
NON-OPERATING REVENUES:			
Donations	\$ 22,793	\$ 20,600	\$ 2,193
Interest income	<u>1,171</u>	<u>1,000</u>	<u>171</u>
Total non-operating revenues	<u>\$ 23,964</u>	<u>\$ 21,600</u>	<u>\$ 2,364</u>
CHANGES IN NET ASSETS	<u>\$ (69,991)</u>	<u>\$ 15,000</u>	<u>\$ (84,991)</u>

*Budget was not amended.

See accompanying independent auditors' report.

AKRON CITY CONVALESCENT CARE CENTER

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION -

BUDGETARY REPORTING

JUNE 30, 2004

The Akron City Convalescent Care Center's Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Care Center on the accrual basis of accounting. The Akron City Convalescent Care Center submits the adopted budget to the City of Akron where it is incorporated within the City of Akron's certified budget. The City of Akron is responsible for following the requirements of public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The City of Akron's Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenses.

OTHER SUPPLEMENTARY INFORMATION

AKRON CITY CONVALESCENT CARE CENTER

SCHEDULES OF REVENUE

YEARS ENDED JUNE 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
Net operating revenue from services to patients and residents:		
Nursing charges	\$ 1,647,164	\$ 1,599,270
Rent incomes:		
Village South apartment complex	65,600	64,200
Village North apartment complex	<u>9,703</u>	<u>-</u>
	<u>\$ 1,722,467</u>	<u>\$ 1,663,470</u>
Other services to patients and residents:		
Medical supplies and drugs	<u>\$ 3,974</u>	<u>\$ 11,662</u>
Total operating revenue from services to patients and residents	<u><u>\$ 1,726,441</u></u>	<u><u>\$ 1,675,132</u></u>
Other operating revenue:		
Meals other than patients:		
Meals-on-Wheels	\$ 3,612	\$ 4,408
Child care center	5,532	10,440
Guest meals	1,385	671
Activities income - craft room	3,113	1,103
Refunds and miscellaneous	<u>12,300</u>	<u>9,344</u>
Total other operating revenue	<u><u>\$ 25,942</u></u>	<u><u>\$ 25,966</u></u>

AKRON CITY CONVALESCENT CARE CENTER

SCHEDULES OF EXPENSES

YEARS ENDED JUNE 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
Administrative and general:		
Salaries	\$ 87,462	\$ 93,942
Office supplies	8,016	10,346
Telephone	5,146	4,775
Advertising	4,428	4,501
Licenses and dues	1,046	1,767
Legal and accounting	11,925	14,575
Payroll taxes - including IPERS	147,039	144,653
Insurance:		
Property and liability	27,200	23,919
Workers' compensation	34,593	23,895
Directors' and officers' liability	5,507	5,102
Employee health	41,844	65,029
Employee physicals and vaccinations	6,098	4,197
Education and travel	3,349	3,033
Finance charges paid	84	73
Computer - software	5,027	3,677
Other	3,977	973
	<u>\$ 392,741</u>	<u>\$ 404,457</u>
Plant operations and maintenance:		
Gas	\$ 17,476	\$ 18,572
Electricity and water (City of Akron Municipal Utilities)	17,999	17,152
Repairs and maintenance	26,036	37,784
Supplies and other	-	936
	<u>\$ 61,511</u>	<u>\$ 74,444</u>
Dietary:		
Salaries	\$ 145,071	\$ 143,291
Food	92,516	89,880
Supplies and other	8,820	12,688
	<u>\$ 246,407</u>	<u>\$ 245,859</u>
Laundry:		
Salaries	\$ 16,000	\$ 15,723
Contract services	23,212	28,579
Linen	1,852	1,507
Supplies and other	1,989	2,048
	<u>\$ 43,053</u>	<u>\$ 47,857</u>

AKRON CITY CONVALESCENT CARE CENTER

SCHEDULES OF EXPENSES

YEARS ENDED JUNE 30, 2004 AND 2003

(CONTINUED)

	<u>2004</u>	<u>2003</u>
Housekeeping:		
Salaries	\$ 48,972	\$ 53,882
Supplies and other	<u>7,551</u>	<u>11,163</u>
	<u>\$ 56,523</u>	<u>\$ 65,045</u>
Nursing services - salaries:		
Registered nurses	\$ 235,956	\$ 244,376
Licensed practical nurses	96,875	49,226
Aides	<u>449,491</u>	<u>452,000</u>
	<u>\$ 782,322</u>	<u>\$ 745,602</u>
Nursing services - supplies and other:		
Supplies	\$ 33,137	\$ 44,265
Education	1,110	4,582
Medical records software support	4,155	4,777
Resident support	<u>906</u>	<u>1,554</u>
	<u>\$ 39,308</u>	<u>\$ 55,178</u>
Drugs and medical supplies:		
Drugs	\$ 2,205	\$ 2,757
Medical supplies	<u>2,189</u>	<u>5,917</u>
	<u>\$ 4,394</u>	<u>\$ 8,674</u>
Activities:		
Salaries	\$ 52,802	\$ 52,733
Supplies	503	4,187
Van maintenance and expense	<u>2,475</u>	<u>3,080</u>
	<u>\$ 55,780</u>	<u>\$ 60,000</u>
Social services:		
Salaries	\$ 24,126	\$ 19,753
Supplies	<u>85</u>	<u>-</u>
	<u>\$ 24,211</u>	<u>\$ 19,753</u>
Physical therapy:		
Consultant	\$ 2,034	\$ 1,051
Salaries - aide	19,468	27,937
Supplies	<u>-</u>	<u>53</u>
	<u>\$ 21,502</u>	<u>\$ 29,041</u>

AKRON CITY CONVALESCENT CARE CENTER

SCHEDULES OF EXPENSES

YEARS ENDED JUNE 30, 2004 AND 2003

(CONTINUED)

	<u>2004</u>	<u>2003</u>
Other services:		
Medical director	\$ 2,400	\$ 2,400
Pharmacy consultant	1,200	1,200
Patient physician fees	-	149
	<u>\$ 3,600</u>	<u>\$ 3,749</u>
Depreciation:		
Building	\$ 18,955	\$ 21,536
Equipment	<u>12,761</u>	<u>10,933</u>
	<u>\$ 31,716</u>	<u>\$ 32,469</u>
Village South Apartment complex:		
Salaries	\$ 21,418	\$ 20,906
Payroll taxes - including IPERS	2,032	1,961
Telephone	481	422
Gas	1,669	1,791
Electricity and water (City of Akron Municipal Utilities)	3,285	3,140
Insurance	1,500	900
Depreciation	6,645	6,655
Miscellaneous	1,276	1,338
Repairs and maintenance	<u>914</u>	<u>996</u>
	<u>\$ 39,220</u>	<u>\$ 38,109</u>
Village North Apartment complex:		
Salaries	\$ 16,302	\$ -
Payroll taxes - including IPERS	573	-
Telephone	385	-
Gas	1,033	-
Electricity and water (City of Akron Municipal Utilities)	998	-
Insurance	3,600	-
Interest	8,449	-
Depreciation	10,764	-
Miscellaneous	1,106	-
Repairs and maintenance	<u>840</u>	<u>-</u>
	<u>\$ 44,050</u>	<u>\$ -</u>
Total expenses	<u>\$ 1,846,338</u>	<u>\$ 1,830,237</u>

See accompanying independent auditors' report.

AKRON CITY CONVALESCENT CARE CENTER

SCHEDULES OF REVENUES AND EXPENSES - VILLAGE SOUTH APARTMENT COMPLEX

YEARS ENDED JUNE 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
Rent income	\$ 65,600	\$ 64,200
Expenses:		
Salaries	\$ 21,418	\$ 20,906
Payroll taxes - including IPERS	2,032	1,961
Telephone	481	422
Gas	1,669	1,791
Electricity and water (City of Akron Municipal Utilities)	3,285	3,140
Insurance	1,500	900
Depreciation	6,645	6,655
Miscellaneous	1,276	1,338
Repairs and maintenance	914	996
	<u>\$ 39,220</u>	<u>\$ 38,109</u>
Excess of revenue over expenses	<u>\$ 26,380</u>	<u>\$ 26,091</u>

AKRON CITY CONVALESCENT CARE CENTER

SCHEDULE OF REVENUES AND EXPENSES - VILLAGE NORTH APARTMENT COMPLEX

YEAR ENDED JUNE 30, 2004

	<u>2004</u>
Rent income	\$ <u>9,703</u>
Expenses:	
Salaries	\$ 16,302
Payroll taxes - including IPERS	573
Telephone	385
Gas	1,033
Electricity and water (City of Akron Municipal Utilities)	998
Insurance	3,600
Interest	8,449
Depreciation	10,764
Miscellaneous	1,106
Repairs and maintenance	<u>840</u>
	\$ <u>44,050</u>
Deficiency of revenue under expenses	\$ <u>(34,347)</u>

AKRON CITY CONVALESCENT CARE CENTER

SCHEDULE OF STATISTICS

YEAR ENDED JUNE 30, 2004

	<u>All Patients</u>	<u>Medicaid Title XIX Patients</u>
52 Bed Nursing Facility:		
Number of patients, July 1, 2003	42	16
Admissions	33	13
Discharges, including deaths	(33)	(15)
Transfers	-	6
Number of patients, June 30, 2004	<u>42</u>	<u>20</u>
 Total patient days	 15,436	 6,114
 Percentage of occupancy	 81.3%	 32.2%
 Average number of patients per day	 42	 17
 Village South Apartment Complex:		
Rent charges	\$ 65,600	*
Gross potential rent (assuming single occupancy)	\$ 66,600	*
Percentage of occupancy	98%	*
 Village North Apartment Complex:		
Rent charges	\$ 9,703	*
Gross potential rent (assuming single occupancy)	\$ 64,800	*
Percentage of occupancy	15%	*

* Statistic not applicable.

AKRON CITY CONVALESCENT CARE CENTER

SCHEDULE OF INSURANCE COVERAGE

JUNE 30, 2004

Property:	
Building - nursing home	\$ 3,620,000
Garage	29,000
Six unit apartment building	355,000
Contents	740,600
Business interruption	720,000
Adult congregate living facilities professional liability:	
Per person	1,000,000
Total	3,000,000
General liability:	
Per occurrence	1,000,000
Total	3,000,000
Business auto coverage:	
Combined single limit	1,000,000
Uninsured/underinsured motorists	1,000,000
Workers' compensation (\$500,000 employer liability)	1,000,000
Employee dishonesty	10,000
Computer equipment	15,000
Directors' and officers' liability	1,000,000
Sexual misconduct liability:	
Per occurrence	1,000,000
Total	3,000,000



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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees of
Akron City Convalescent Care Center

We have audited the financial statements of Akron City Convalescent Care Center for the years ended June 30, 2004 and 2003, and have issued our report thereon dated August 5, 2004. We conducted our audits in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Akron City Convalescent Care Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered Akron City Convalescent Care Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sioux City, Iowa
August 5, 2004

King, Reinsch, Prosser & Co., L.L.P.